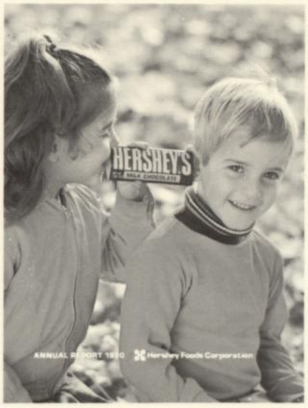
ANNUAL REPORT 1970 Hershey Foods Corporation

Hershey Foods Corporation AND SUBSIDIARIES

THE COVER: Each new generation discovers The Great American Chocolate Bar. Like music and laughter, the Hershey Bar knows no boundaries of age, of geography, of race or color. The universal delight of children enjoying Hershey's Chocolate is the central theme of your Company's national consumer advertising program. Beginning in late September, the Hershey television and radio commercials have been widely acclaimed for their charm and good taste and are helping to assure the continuing vitality of one of the world's leading confectionery brands.



EXECUTIVE OFFICES 19 East Chocolate Avenue, Hershey, Pa.

TRANSFER AGENT First National City Bank, *New York*

REGISTRAR Morgan Guaranty Trust Company, *New York*

AUDITORS Arthur Andersen & Co., *New York*

CORY CORPORATION
Chicago, Illinois

DAVID & FRÈRE (1967) LTÉE
Montreal, Canada

DELMONICO FOODS, INC.
Louisville, Kentucky

HERSHEY CHOCOLATE & CONFECTIONERY DIVISION
Hershey, Pennsylvania–Oakdale, California

HERSHEY CHOCOLATE OF CANADA DIVISION
Smiths Falls, Canada

L. D. PROPERTIES CORPORATION
Oakdale, California

H. B. REESE CANDY CO., INC.
Hershey, Pennsylvania

SAN GIORGIO MACARONI, INC.
Lebanon, Pennsylvania

PORTION CONTROL INDUSTRIES, INC.
Chicago, Illinois

To Our Shareholders

William E. Schiller, *Chairman of the Board and Treasurer of the Corporation*
Harold S. Mohler, *President of the Corporation*

Norman Chapman, *President, Portion Control Industries, Inc.*
Richard A. Zimmerman, *Assistant to the President, Hershey Foods Corporation*
James E. Bobb, *President, Hershey Estates*

R. L. Uhrich, *Secretary of the Corporation*
Julian Hemphill, *Director of Cocoa Bean Purchases and Assistant Treasurer of the Corporation*

William E. Dearden, *Vice President/Sales and Marketing of the Corporation*
A. R. Whiteman, *President of Hershey Trust Company*
Gilbert Nurick, *Senior Partner of Law Firm of McNees, Wallace and Nurick*

We are pleased to report that in 1970 the company achieved record sales and that earnings showed a considerable improvement over those for the previous year.

Following are the results for the past two years on a consolidated basis including, in each year, sales and earnings of Portion Control Industries:

	1970	1969
Sales	$349,636,499	333,973,154
Net Income	18,857,596	13,574,611
Income per share	1.41	1.01
Dividends per share	1.10	1.10

The per share income is based on the average common shares and common equivalent shares outstanding during each year. The common equivalent shares are the 1,500,000 common shares into which the 500,000 preferred shares issued in May 1970 for the acquisition of Portion Control Industries are convertible. The first series of 50,000 such preferred shares became convertible on January 21, 1971.

Primarily responsible for the improvement in earnings was the lower cost of our principal raw material—cocoa beans. After four years during which consumption exceeded production, last year's world crop of cocoa beans proved to be the second highest in history. As a result, the price of this commodity declined to a level which permitted us to sell our chocolate and cocoa products at more nearly normal margins. The outlook for the present world crop is good and prices have been in a declining trend.

Our program for consumer advertising of chocolate and confectionery products which was launched on a test basis a little over a year ago was expanded last September to include the entire nation. We are presently advertising HERSHEY bars—plain and with almonds—HERSHEY'S "Instant", and REESE'S peanut butter cups. It is planned to advertise additional brands this year.

The conversion from marketing five-cent bars to ten-cent bars was made with only minor difficulties. We are gratified by the cooperation received from our customers and the acceptance of this change by consumers.

HERSHEY'S "RALLY" bar (a nut roll with fudge and caramel center) is now in distribution nation-wide and is getting an excellent reception. We are presently selling "KIT KAT" bars (a chocolate-covered wafer confection) which we market under an agreement with Rowntree Mackintosh of England in certain sections of the country and plan to expand this sale as soon as additional product is available.

The processing capability of PRONTO FOOD CORPORATION (the operating subsidiary of PORTION CONTROL INDUSTRIES) is constantly being overtaxed. Its plant in Chicago is being enlarged and another facility in the area is being temporarily activated until a new plant is designed and constructed.

During 1970 we spent $12,012,054 for expanding and modernizing the facilities of our various operations.

In December 1970 our board of directors was increased to ten with the election of three additional directors: James E. Bobb, president of Hershey Estates; Norman Chapman, president of Portion Control Industries; and Richard A. Zimmerman, assistant to the president of Hershey Foods Corporation.

To our directors, officers, and our more than 8,000 other employees we express our thanks for their cooperation in helping the company grow and prosper.

W. E. Schiller
Chairman of the Board

H. S. Mohler
President

"WE'VE GOT REESE'S IN OUR REFRIGERATOR!" In 1923 the late H. B. Reese created an entirely new confection from two popular tastes—milk chocolate and peanut butter. Today Reese's Peanut Butter Cups occupy prominent display space wherever candy is sold. And the growing enthusiasm for Reese's seems without end as more and more people discover them and find new ways to enjoy them—like Reese's from the refrigerator on a summer day. The "two great tastes that taste great together" advertising theme is now being used most effectively on national television and radio, aimed at the youth market that comprises the largest and most loyal group of Reese's consumers. A major addition to the Reese plant in Hershey will be completed in late 1971.


Reese's
Reese's
24 PEANUT BUTTER CUPS
Reese's


33¢
HERSHEY'S
Instant

"DON'T FORGET THE HERSHEY'S INSTANT!" Chocolate milk—hot or cold, made the instant way—is perhaps the favorite drink of families with young children. This has made chocolate flavored milk additive powder one of the fastest growing of all grocery product categories. Hershey has entered this huge market and is aggressively seeking to enlarge its share. Brilliant new packaging is now giving Hershey's Instant more impact on supermarket shelves. A Hershey innovation—the ten-pack of ten individual servings—is in national distribution. During 1970 the product was advertised via national television. Its theme that Hershey's "makes milk taste like a Hershey Bar" was welcomed by countless American mothers who want their children to drink more milk. The commercials were a big hit with the youngsters, too.

"REACH ME A RALLY BAR." Rally is the "Hershey-covered hunger stopper", the milk chocolate covered nut roll for the man-sized appetite. Rally represents Hershey's entry into the field of the "enrobed" candy bar and is the most exciting new confectionery brand to appear within recent years. After an extensive period of test marketing Rally has now achieved full national distribution and is being supported by television and outdoor advertising. Because of its encouraging consumer acceptance and the new market potential it has created for your Company, many more good things are expected from Rally in 1971.


10¢
Rally
MILK CHOCOLATE COVERED NUT ROLL

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

Hershey Foods Corporation AND SUBSIDIARIES

	FOR THE YEARS ENDED DECEMBER 31	
	1970	**1969**
NET SALES	$349,636,499	$333,973,154
COSTS AND EXPENSES:		
Cost of goods sold	230,821,879	237,770,362
Selling, administrative and general	50,065,475	39,141,715
Shipping	19,493,586	17,700,464
Depreciation (Note 5)	5,514,123	4,936,202
Interest	2,915,340	2,033,643
Total costs and expenses	308,810,403	301,582,386
Income before income taxes	40,826,096	32,390,768
PROVISION FOR FEDERAL AND STATE INCOME TAXES	21,968,500	18,816,157
Net income	18,857,596	13,574,611
RETAINED EARNINGS AT JANUARY 1 (Note 1)	149,345,493	148,830,013
	168,203,089	162,404,624
DEDUCT—Dividends: Preferred $. 45 a share	225,000	–
Common $1.10 a share	13,017,517	13,059,131
RETAINED EARNINGS AT DECEMBER 31	$154,960,572	$149,345,493
NET INCOME PER COMMON SHARE (Note 8)	$1.41	$1.01

The accompanying notes are a

CONSOLIDATED BALANCE SHEET

Hershey Foods Corporation AND SUBSIDIARIES

	DECEMBER 31 1970	DECEMBER 31 1969
ASSETS		
CURRENT ASSETS:		
Cash	$ 7,503,549	$ 11,638,526
Accounts receivable, less reserves	23,549,644	21,721,933
Inventories (Note 2)	67,870,690	65,429,810
Total current assets	98,923,883	98,790,269
PLANT AND PROPERTY, at cost (Note 5):		
Land	4,121,918	3,945,593
Buildings	45,665,758	43,151,560
Equipment	93,890,981	88,051,584
	143,678,657	135,148,737
Less-Reserves for depreciation	56,717,220	53,115,472
Net plant and property	86,961,437	82,033,265
COST OF INVESTMENTS IN SUBSIDIARIES IN EXCESS OF BOOK VALUES AT DATES OF ACQUISITION (Note 6)	19,850,189	20,896,504
DEFERRED CHARGES, ETC.	13,225,044	11,760,563
	$218,960,553	$213,480,601
LIABILITIES		
CURRENT LIABILITIES:		
Loans payable within one year (Note 4)	$ 5,230,070	$ 5,720,488
Accounts payable	9,748,088	16,673,987
Accrued liabilities	5,503,515	6,276,750
Reserve for Federal and state income taxes	5,093,475	4,964,826
Total current liabilities	25,575,148	33,636,051
LONG TERM LOANS (Note 4)	28,547,712	20,377,880
RESERVE FOR DEFERRED INCOME TAXES (Note 5)	12,091,724	10,682,554
STOCKHOLDERS' EQUITY (Notes 1 and 7):		
Cumulative Preferred Stock– Authorized 2,000,000 shares; issued–500,000 shares with dividend rate of $.60 per year	1,500,000	1,500,000
Common stock, without par value– Authorized 20,000,000 shares; issued– 12,228,710 and 12,226,360 shares, respectively	9,091,496	9,052,016
Retained earnings	154,960,572	149,345,493
	165,552,068	159,897,509
Less: Treasury stock, at cost– 430,805 and 364,802 shares, respectively	12,806,099	11,113,393
Total stockholders' equity	152,745,969	148,784,116
	$218,960,553	$213,480,601

gral part of these statements.

CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF FUNDS

Hershey Foods Corporation AND SUBSIDIARIES

	FOR THE YEARS ENDED DECEMBER 31	
SOURCE	**1970**	**1969**
Net income for the year	$18,857,596	$13,574,611
Income charges not requiring the disbursement of cash:		
Depreciation	5,514,123	4,936,202
Deferred income taxes	1,409,170	1,385,693
Funds provided from operations	25,780,889	19,896,506
Increase (Decrease) in long term debt	8,169,832	(18,559)
Sale of Autopoint Company, a division of Cory Corporation, for $3,400,000 less applicable net current assets (working capital) in the amount of $1,305,367 included in sale	2,094,633	–
	36,045,354	19,877,947
DISPOSITION		
Dividends paid		
Preferred	225,000	–
Common	13,017,517	13,059,131
Treasury stock acquired	1,692,706	766,297
Additions to plant and property	12,012,054	9,725,734
Other (Net)	903,560	2,805,157
	27,850,837	26,356,319
Increase (Decrease) in working capital	$ 8,194,517	$(6,478,372)

The accompanying notes are an integral part of this statement.

NOTES

1 The accompanying consolidated financial statements include the accounts of HERSHEY FOODS CORPORATION and all of its subsidiary corporations.

Intercompany balances and transactions have been eliminated. Assets, liabilities and income of foreign subsidiaries have been translated at approximate current rates of exchange, except that historical rates were used for fixed assets and related depreciation.

On May 7, 1970 the Company purchased all of the assets and business and assumed the liabilities of Portion Control Industries, Inc. for 500,000 shares of the Company's $.60 Cumulative Preferred Stock, Series 1 to 6. Such stock is convertible into the common stock of the Company on the basis of three shares of common for one share of preferred, in series, at various dates. All such Cumulative Preferred Stock must be converted by December 31, 1975.

The Company has accounted for such acquisition on a pooling of interests basis and accordingly the December 31, 1969 financial statements have been restated to include the accounts of Portion Control. The underlying net worth of Portion has been credited to the preferred capital stock account in an amount equal to the stated value of the shares issued as fixed by the Board of Directors of Hershey. The remainder ($1,104,089) has been credited to consolidated retained earnings.

2 Inventories of cocoa beans, almonds, peanuts and milk, together with such material and wage costs included in finished goods and goods in process are substantially all stated at cost, under the "last-in, first-out" method. The remaining inventories are stated at lower of cost or market under the "first-in, first-out" or "average cost" method.

3 The Company and certain of its subsidiaries have a Retirement Plan covering substantially all employees of such companies which was amended during the year to eliminate employee contributions to the Plan. The total pension expense for 1970 was $980,000 compared with $660,000 in 1969. The Company's policy is to fund current service costs as incurred.

4 Long term loans at December 31, 1970 consist of the following:

Term loan at ¼ of 1% above prime interest rate (prime rate was 6¾% at December 31, 1970) until December 31, 1973 and ½ of 1% above prime rate thereafter, payable in equal semi-annual installments commencing June 30, 1971 and ending December 31, 1977 ($15,000,000 less current portion of $2,142,857)	$12,857,143
Loan at prime interest rate until December 31, 1972, at ¼ of 1% above prime rate from December 31, 1972 to December 31, 1974, and ½ of 1% above prime rate thereafter, payable in equal semi-annual installments commencing June 30, 1973 and ending December 31, 1976. . . .	6,500,000
4½% loan, payable in equal quarterly installments of $357,143 to 1973.	2,142,858
Various other loans . .	7,047,711
	$28,547,712

On November 23, 1970, the Company entered into a $15,000,000 term loan agreement and a $10,000,000 revolving credit agreement which superseded a $25,000,000 revolving credit agreement.

The loan in the amount of $6,500,000 represents borrowings under the provision of a revolving credit agreement which allows the Company to borrow up to $10,000,000. The oustanding balance on December 31, 1972 may be converted into a term loan with repayments as indicated above. It is presently the Company's intention to convert the balance borrowed into a term loan.

The loan agreements contain certain restrictions as to the ratio of debt, as defined, to current assets and to stockholders' equity and the excess of current assets over current liabilities.

5 Depreciation of buildings and equipment is provided under straight-line and accelerated methods over estimated useful lives which range from 3 to 50 years for financial reporting whereas guideline lives and, in some cases, depreciation calculated by more accelerated methods are used for substantially all property in income tax reporting. The reduction in income taxes currently payable resulting therefrom is being credited to deferred taxes.

6 The cost of investments in subsidiaries in excess of the net assets acquired at dates of acquisition is not being amortized since the Company believes there has been no diminution of value of these assets. The decrease of approximately $1,046,000 is the result of the sale of the Autopoint Company, a division of Cory Corporation.

7 Under the terms of the 1968 Stock Option Plan, a maximum of 500,000 shares of common stock may be issued to officers and key employees at not less than market value at the date such options are granted. The options are exercisable at anytime until expiration, 5 years after granting or earlier in the event of death or other termination of employment by the optionee. At December 31, 1970, options for 115,000 shares at prices ranging from $26.29 to $27.22 were outstanding. No options were granted, exercised or cancelled in 1970.

Under a previous plan adopted in 1957 and terminated in 1964, except for options then outstanding and unexercised, options for 2,350 shares were exercised at $16.80 a share during 1970 and options for 5,000 shares at $34.00 per share were outstanding at December 31, 1970.

8 Net income per common share has been computed based on the average shares of common stock and common stock equivalents outstanding during the period. The 500,000 shares of $.60 Cumulative Preferred Stock outstanding have been included in the computation at their common equivalent of 1,500,000 shares.

AUDITORS' REPORT

To the Stockholders and Board of Directors of
HERSHEY FOODS CORPORATION:

We have examined the consolidated balance sheet of HERSHEY FOODS CORPORATION (a Delaware corporation) and subsidiaries as of December 31, 1970 and December 31, 1969, and the related statements of consolidated income and retained earnings and source and disposition of funds for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements referred to above present fairly the financial position of HERSHEY FOODS CORPORATION and subsidiaries as of December 31, 1970 and December 31, 1969, and the results of their operations and the source and disposition of funds for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.

New York, N.Y.,
February 11, 1971.

TEN YEAR SUMMARY
SALES, INCOME AND DIVIDENDS

Hershey Foods Corporation AND SUBSIDIARIES

	NET SALES	NET INCOME		DIVIDENDS	
YEAR		TOTAL	PER COMMON SHARE	COMMON	PREFERRED
1970	$349,636,499	$18,857,596	$1.41	$1.10	$.45
1969	333,973,154	13,574,611	1.01	1.10	–
1968	296,045,285	19,898,149	1.67	1.10	–
1967	246,745,196	20,934,705	1.75	1.10	–
1966	225,738,443	24,973,012	2.09	1.075	–
1965	211,780,687	24,722,000	2.02	1.00	–
1964	207,129,308	22,745,755	1.86	.925	–
1963	203,021,904	22,233,913	1.82	.90	–
1962	191,332,314	22,696,704	1.86	.90	–
1961	185,239,352	20,513,768	1.70	.80	–

NOTE

Net sales, net income and net income per common share for 1969 have been restated to give retroactive effect to the pooling of Portion Control Industries, Inc. The years prior to 1969 have not been restated.

"SPAGHETTI FOR DINNER TONIGHT!" In millions of American homes the spaghetti dinner comes pretty close to being the all-purpose family meal. Easy and economical to serve, eye-appealing in its deep red sauce and genuinely *fun* to eat, spaghetti—and a wide range of pasta products—is an important part of your Company's business. The San Giorgio brands are made in Lebanon, Pennsylvania by San Giorgio Macaroni, Inc., and are distributed throughout the Middle Atlantic States. Delmonico Foods, Inc. manufactures a similar product line in Louisville, Kentucky for pasta lovers in Ohio, Indiana, Illinois, Kentucky and Tennessee.

"COFFEE BREAK." This universally popular institution of the American business scene is responsible for a nationwide service that is a big business in itself—the Cory Coffee Service Plan. The Cory Corporation installs coffee making equipment, supplies the coffee and provides service that saves the customer much inconvenience and, frequently, much money. Cory is also nationally known as a quality name in institutional coffee brewing equipment and home appliances. Cory Canada serves Canadian firms and consumers from its headquarters in Toronto.

"HOT CHOCOLATE AND COOKIES." All out participation in winter sports is one of the chief characteristics of the modern life style. Traditionally, Hershey and its corporate members have provided the energy builders. The curling match, pictured above, will soon call time out for hot chocolate and a snack. The cookies are popular brands of David & Frère in Montreal, Quebec. The hot chocolate is made quickly and easily by adding hot milk to Hershey's *Chocolat Instantané*—a product of Hershey Chocolate of Canada in Smiths Falls, Ontario.

"FAST FOOD FOR PEOPLE ON THE GO"—The hamburger has been one of America's most popular sandwich items for people on the go. Pioneering in the manufacture and marketing of the *frozen fully cooked* hamburger for fast-food outlets was Portion Control Industries of Chicago, whose major subsidiary is Pronto Food Corporation. Today, while the market for fast food has grown far beyond the hamburger, Portion Control Industries has grown right along to become part of one of America's most exciting growth industries. Now specializing in a complete line of over 50 frozen fully cooked foods for institutional fast-food service programs, Portion Control Industries sells to individual caterers, schools and colleges, hospitals, airlines—wherever large numbers of people are to be provided food service within a short period of time. Big now and growing bigger . . . Portion Control Industries.

Hershey Foods Corporation
®
Hershey, Pa. 17033, U.S.A.